

Approved For Release 2009/09/18 : CIA-RDP87M00539R000100010023-2

**EXECUTIVE SECRETARIAT
ROUTING SLIP**

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
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3	EXDIR		X		
4	D/ICS		X		
5	DDI		X		
6	DDA		X		
7	DDO		X		
8	DDS&T		X		
9	Chm/NIC				
10	GC				
11	IG				
12	Compt		X		
13	D/Pers				
14	D/OLL		X		
15	D/PAO		X		
16	SA/IA				
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Remarks

STAT

Executive Secretary
25 April 1985

Date

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THE WHITE HOUSE
WASHINGTON

Executive Registry

85- 1712

CABINET AFFAIRS STAFFING MEMORANDUM

Date: April 24, 1985 Number: 175374CA Due By: --Subject: Speech and Fact Sheet on the Budget

ALL CABINET MEMBERS	Action	FYI	CEA CEQ OSTP	Action	FYI
	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
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USTR	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	Executive Secretary for:		
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCCT		
NASA	<input type="checkbox"/>	<input type="checkbox"/>	CCEA		
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCFA		
VA	<input type="checkbox"/>	<input type="checkbox"/>	CCHR		
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCLP		
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			CCNRE		

REMARKS: Attached are the speech and fact sheet on the budget. Please instruct your speechwriters and briefers to focus on this issue for the next five days in any and all television, radio, press appearances, etc.

Many thanks..

RETURN TO:

Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

Don Clarey
 Tom Gibson
 Larry Herboldsheimer

Associate Director
Office of Cabinet Affairs
456-2800 (Room 129, OEOB)

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THE WHITE HOUSE

Office of the Press Secretary

FOR RELEASE AT 8:00 PM EST
WEDNESDAY, APRIL 24, 1985

TEXT OF AN ADDRESS BY THE PRESIDENT
ON THE TAXPAYERS' PROTECTION PLAN

The Oval Office

My fellow Americans, I must speak to you tonight about a serious problem that demands your immediate attention. I need your help.

Today the United States Senate began a rendezvous with history. The threads of our past, present, and future as a Nation will soon converge on the single, overriding question before that body: can we at last -- after decades of drift, neglect, and excess -- put our fiscal house in order? Can we assure a strong and prosperous future for ourselves, our children, and their children by adopting a plan that will compel the Federal Government to end the dangerous addiction to deficit spending and finally live within its means?

Throughout our history, we Americans have been willing to meet great challenges and do what is right when our destiny demanded it.

Just 4 years ago this week I asked your support for our bipartisan recovery program. That was the program the spenders said wouldn't work and they called it Reaganomics. You might remember April 1981 -- a time when our defenses were weak, inflation still in double digits, and economic growth almost dead from a Government that taxed too much, and spent even more than it taxed.

We knew it would take a great effort to turn that around; we knew that letting you keep more of your earnings to get our economy moving again would be resisted by the Old Guard in Washington. But, we also knew the answer to a Government that's too fat is to stop feeding its growth. We wanted America to rediscover opportunity. We asked for your help then, and you gave it to us.

You turned America around: turned around her confidence, turned around her economy, turned around over a decade of one national nightmare after another. We're into our 29th straight month of economic growth, with inflation staying down, and more of us working than ever before -- that's 8 million new jobs. Now that our program is working, you may have noticed they're not calling it Reaganomics anymore.

Once again, the United States is the flagship economy for the world. A new generation of entrepreneurs is coming up, pointing us toward a 21st century full of amazing change and vast new opportunities.

We must seize this historic moment to shape America's future -- to completely overhaul our tax code, changing it from a source of confusion and contempt, to a model of fairness and simplicity, with strong, new incentives for even greater growth. So many good things lie ahead for America.

And yet -- all our progress, all the good we've accomplished so far, and all our dreams for the future could be wrecked -- if we do not overcome our one giant obstacle.

The simple truth is, no matter how hard you work, no matter how strong this economy grows, no matter how much more tax money comes to Washington, it won't amount to a hill of beans if Government won't curb its endless appetite to spend. Overspending is the

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subject we must now address -- how budgets got so far out of balance and, yes, what together we can and must do to correct this.

Sometimes the big spenders in Congress talk as if all that money they spend just kind of magically appears on their doorstep, a gift from the I.R.S. They talk as if spending were all giving and no taking.

There is no magic money machine. Every dollar the Government spends comes out of your pockets. Every dollar the Government gives to someone has to first be taken away from someone else. So it is our moral duty to make sure that we can justify every one of your tax dollars, that we spend them wisely and carefully, and, just as important, fairly.

Unfortunately, hardly anyone could honestly call Federal budgets wise, careful, or fair.

Is it fair to ask one small business to help subsidize its competitors?

Is it fair to ask workers in the private economy to pay for civil service pensions that are much more generous than the retirement benefits they receive?

Is it fair to ask low-income families to help pay for the college education of children from families with incomes as high as \$100,000 a year?

Is it fair to ask taxpayers to help pay billions for export subsidies to a handful of America's biggest corporations?

Well, it isn't fair, and you know it. But that's the law of the land right now, just part of the legacy of 50 years of trying to do good things for all by treating your earnings like Government property.

The time has come to decide what benefits we can properly expect from the Federal Government for ourselves, our neighbors, and those in need; and what Government can take from us in taxes without making everyone worse off including those who need our help. The one thing we cannot do is to stay on the immoral, dead-end course of deficit spending.

Today, our national debt amounts to nearly \$8,000 for every man, woman, and child in America, and it's increasing by about \$1,000 per person each and every year. Just to cover the interest on that debt, the Federal Government will spend \$155 billion this year alone -- more than its entire budget as recently as 1966.

Despite your worries and all the warnings, the trend has continued year after year. We have had only one balanced budget in the last quarter century. As a Nation, our debt has grown and grown and grown until now it totals \$1.7 trillion -- a number so big that it is nearly unimaginable. A single billion is 1,000 millions. A trillion is a million millions.

This is not just my problem; this is not just Congress' problem; this is our problem -- and we must solve it together as Americans.

Tonight I am asking all of you -- Democrats, Republicans, and Independents -- to give me your help to put our financial house in order so that our tax, spending, and monetary policies will not hinder growth, but encourage it; not send inflation and interest rates shooting back up, but keep them heading down; and not drown us under a tidal wave of debt, but protect us in the safe harbor of financial stability, with a sound and powerful economy.

Not surprisingly, some still want to raise your taxes. They say we cut your taxes too much in 1981, when we ended years of bracket creep and lowered rates for every American taxpayer. This is simply

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untrue. And it implies Government has a right to take from you all that it needs to satisfy the demands of special interest groups. Surely there is no faster way to see our prosperity vanish than to yoke the decent, hardworking, taxpaying citizens of this great Nation to an automatic spending machine in Washington, D.C. Government should tax to meet Government's needs -- not Government's wants.

Nine days ago, I received a very welcome gift -- a letter with 146 signatures. One hundred forty-six Members of Congress have pledged to uphold what -- I repeat tonight -- will be my certain veto of any tax increase Congress sends me, no matter how cleverly it's disguised.

Is it too much to ask the spoilers to give up their hidden agenda to increase taxes, which would only slow the economy, throw people out of work, and, yes, make the deficit worse? Do they still not understand how generous you've been, paying heavy taxes to defend freedom around the world, ease starvation in distant nations, and help the needy, the elderly, and the sick and handicapped here at home?

As you can see, the rising blue bar shows that the taxes you paid in the last 20 years increased by over \$620 billion. If you think that's a staggering sum, you're right. But look at this rising red bar showing Government spending. In that same 20-year period, the red bar went up even more. It went up by over \$840 billion. Government spending -- that's the real Washington Monument.

Taxes are too high, but spending is even higher. During the 20 years when inflation, steep Federal income tax rates, and rising State, county, and local taxes, were pushing you into tax brackets once reserved for the wealthy, Congress was writing checks and spending your money even faster than you could earn it.

What went wrong? Where has all the money gone? Well, during the strong, prosperous Eisenhower years in the 1950's, and through the Kennedy years, we kept spending in check. During those Kennedy years, there was a tax cut proposed similar to our cut. It was enacted in 1964 and the economy grew then as it has grown now.

But others in Government did not take the next logical step and say, "Look, freedom and incentives are working. So let's reduce tax rates further, let's transform our ghettos into havens for enterprise, give families new incentives to save for their children's education -- let's make every citizen a shareholder in America's future."

Government did the opposite. Government began to take over America. In the name of the Great Society, it began doing things never before felt possible or desirable. Government took over passenger railroads. It began contributing billions to 39,000 local government budgets. Its spending on agriculture subsidies soared to a level higher than the total net income from every farm in America.

Let me interject something here, and I'll state it plainly and simply: the enormous weight of Federal spending and runaway deficits has gone far toward placing in jeopardy one of every seven family farms in the United States. This is not simply an economic statistic; it is a great social tragedy that should command the concern of every American. Control of this runaway engine of Federal spending has become crucial to the survival of the family farm in the United States.

The new programs started after 1964 cost \$16 billion by 1966, \$78 billion by 1975, and \$148 billion per year by 1981.

Today, Government puts a dime into the fare box every time somebody boards a local bus or transit line. Today, Government subsidizes loans for every imaginable purpose -- from education, to aircraft exporters, to luxury waterfront developments and hotels -- so that

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Government's lending business is bigger than Chase Manhattan and the Bank of America's combined -- and the spending line keeps going up.

To be sure, much good has been done. In health, education, and food assistance, we are spending more than ever before in our history. But, in many areas we are spending where we should not be, and spending what we can no longer afford. And so much of what we spend goes not to the individuals needing help, but to thousands upon thousands of bureaucrats, researchers, planners, managers, and professional advocates -- who earn their living from the great growth industry of Government. It is no accident that some of the wealthiest communities in America are the communities surrounding the Federal Government in Washington, D.C.

My fellow citizens, the time has come for Government to make the same hard choices your families and businesses do. The time has come for your public servants to bring spending down into line with tax revenues.

Accomplishing this -- bringing the spending line down to our incomes -- is the heart of our deficit reduction plan that we put together with Senator Dole and his colleagues. We call it the Taxpayers' Protection Plan, and that's just what it is: it will reduce deficits by \$300 billion over 3 years, bringing us within reach of a balanced budget by 1990, and it will do this not by raising your taxes, but by reversing 20 years of overspending.

Our plan attacks excessive spending across the board. No part of the budget is spared, and a shared effort will be asked of all. But unlike a spending freeze, which would not reduce deficits nearly enough, and which would make no distinction between worthy and wasteful programs, our plan recognizes that all spending is not created equal. Some programs are vital to our national security and domestic welfare and must be given first priority. Others are no longer affordable, or were not proper Federal responsibilities to begin with.

Our plan establishes clear national priorities: it keeps what should be kept and cuts what should be cut.

Our first priority must always be our national security. The Soviets are far more dangerous today than during the fifties and sixties -- periods in which we devoted far more to our defense. And they continue arming well beyond the defense needs of their country. Because of that threat, we must maintain modest but steady growth each year. Three percent is the rock bottom level we must maintain for effective deterrence to protect our security.

As I've said, even with this small increase, we'll spend a smaller share of our budget on defense than we did 20 years ago. Cuts we've proposed in projected defense spending will contribute \$100 billion -- a full one-third of our proposed budget savings for the next 3 years. This will require cancelling some programs. Some nonessential military bases may be closed or cut back. But mainly we will continue to identify and eliminate waste and crack down harder on excesses in contract costs.

Waste in the Department of Defense must and is being eliminated as is fraud in defense contracts. The stories you've been reading and hearing about, \$400 hammers and such, are things that we have discovered were going on before, and that we're correcting.

Padding of expense accounts, overcharging for weapons, profiteering at the expense of the public -- these should be, and will be, prosecuted to the full extent of the law.

Men who illegally line their pockets with dollars the American people have contributed to our defense are stealing from the arsenal of democracy the very weapons our young men need to defend freedom. And our tolerance of this selfish behavior was long ago exhausted.

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The Senate will face demands to cut defense even more -- but here we must draw the line. Federal overspending is not caused by meeting vital security needs. And, even our critics know that further reductions would jeopardize our security. Our strategic programs, our 600-ship Navy, our conventional weapons modernization, and our readiness programs must go forward.

Our plan will freeze the defense spending share of our gross national product at 6.4 percent for the next 3 years -- a share well below the 8-9 percent at the time of Eisenhower and Kennedy. The remaining two-thirds of our deficit reduction can and must come from other parts of the budget -- from domestic programs that are no longer necessary or in need of basic reform.

Let me give some examples of the sort of programs we intend to cut back.

When Amtrak was begun in 1971 for a 2-year trial run, we were told it would soon turn a profit. Fourteen years and nearly \$9 billion later, Amtrak is still running on taxpayer subsidies. Every time a train leaves the station, it costs taxpayers \$35 for each passenger on board. In some cases it would be cheaper just to hand them plane tickets. Eliminating Amtrak will save \$8 billion over the next decade.

We'll also save billions by eliminating taxpayer subsidies to some of America's biggest corporations through Export-Import Bank loans, and by abolishing the Small Business Administration's lending programs, which are not only costly and unfair, but unneeded in an economy creating over 600,000 new business incorporations a year.

Supporters of programs like these always ignore the big, hidden costs all of us eventually have to pay. If programs like these can't be cut, we might as well give up hope of ever getting Government spending under control. If Congress can't bring itself to do what's right -- well, they should at least give me what 43 Governors already have -- a line-item veto. Then I'll make the cuts; I'll take the responsibility -- and the heat.

One area we will not touch, however, is the safety net for needy Americans. Programs that provide income, food, housing, and medical aid for the neediest Americans were reformed in 1981 and are now targeted to genuine need. But these programs only make up 8 percent of the budget, so we need everyone's help to get spending under control.

The burden will not be great if all of us help carry the load. We are asking the 46 million Americans who receive a retirement, veterans, or Social Security check to accept a guaranteed 2-percent increase over the next 3 years, in place of the existing cost-of-living adjustment. If, however, inflation should rise above 4 percent, the amount above 4 percent would be added to the 2 percent.

These programs now total nearly \$250 billion per year, 25 percent of our entire budget. They cost 30 times more than they did just three decades ago. Our veterans, disabled workers, and retired citizens have earned their benefits. They deserve an adequate and dignified standard of living, and we will never renege on that pledge.

All of us together have a shared interest in a healthy, expanding economy: it means jobs, opportunities, and rising incomes for our younger citizens, and a steady flow of tax payments into the funds that support our retired citizens.

A small effort now will mean big gains for all Americans later. If we can keep our economy on track, 16 million more Americans will be working in 1988 than were employed at the end of 1982. With that much growth, with that many new jobs, there will never be any doubt: the retirement checks that 46 million Americans depend on will be

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secure -- the economic base that supports them will be strong, and the tax payments that fund them will be abundant.

If we want to continue trying to make these the best years of our lives -- if we want to protect our retired and disabled, boost small business, create jobs, strengthen our farm economy, our exports, improve our cities and help your families send your children to college -- there is one sure-fire way to do it: we're all going to have to pitch in together. But if we refuse, if we go back to the old pattern of business as usual, then let there be no mistake: business as usual will eventually destroy our prosperity and all the blessings it has given us.

My fellow citizens, you remember the words of young John Kennedy, words of challenge to America in 1961, "ask not what your country can do for you -- ask what you can do for your country." In those days, Federal spending was only a fraction of what it is today. Since then, Government programs have grown to the point where they touch almost half the families in America.

Today, his question is more relevant than before. All of us are being challenged again to ask what we can do for our country, challenged to work together, 237 million strong, to build a secure and lasting foundation for the American Dream.

Even with all our cuts and reforms, our plan still provides \$560 billion for non-defense programs next year -- the highest level in history. Congress has before it a budget that doesn't mortgage our future to higher taxes and expanding debt. It is a fair program; it is a balanced program; it will protect the neediest among us; it will stop the worst abuses of overspending; and it not only deserves your support, it must have your support to pass.

So let me stress, as strongly as I can, this shared effort we are asking you to make now will be our best assurance of avoiding painful hardship down the road.

We stand at a crossroads. The hour is late, the task is large, and the stakes are momentous. I ask you to join us in making your voices heard in the Senate this week, and later in the House. Please tell your Senators and Representatives by phone, wire, or mailgram that our future hangs in the balance, that this is no time for partisanship, and that our future is too precious to permit this crucial effort to be picked apart, piece by piece, by the special interest groups. We've got to put the public interest first.

My fellow Americans, I hope history says of us that we were worthy of our past, worthy of our heritage. We can seize the moment, we can do our best for America to keep our future strong and secure and free. Our children will thank us -- and that's all the thanks we'll ever need.

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THE WHITE HOUSE

Office of the Press Secretary

EMBARGOED FOR WIRE TRANSMISSION
UNTIL 8:00 p.m. EST

April 24, 1985

FACT SHEET

ADDRESS BY THE PRESIDENT
ON THE COMPROMISE BUDGET REQUEST FOR FISCAL 1986

The President delivered a televised address from the Oval Office beginning at 8:00 p.m., on Wednesday, April 24, 1985.

In his remarks, the President discussed the compromise budget proposal for fiscal year 1986 agreed to on April 4th by the President and the Senate Republican leadership. He urged public support for the compromise, which he termed the Taxpayers' Protection Plan.

I. General Themes of the Address:

The President said the plan "will reduce deficits by \$300 billion over 3 years, bringing us within reach of a balanced budget by 1990" and stressed this would be done without higher taxes.

He spoke of the challenge facing Congress and noted that "[t]oday the United States Senate began a rendezvous with history" to see if we can "compel the Federal Government to end the dangerous addiction to deficit spending and finally live within its means." He urged Americans to make "your voices heard in the Senate this week, and later in the House."

On the compromise budget plan itself, the President said that it meets these important tests:

- o it reduces the deficit without increasing taxes in a way that "will not hinder growth but encourage it";
- o it is fair and balanced, and "attacks excessive spending across the board";
- o it protects the neediest among us, preserving the safety net of programs as "one area we will not touch";
- o it sets clear national priorities; contrary to a freeze which would make no distinctions between "worthy and wasteful" spending, the plan "keeps what should be kept and cuts what should be cut."

II. Elaboration of Specific Points About the Taxpayers' Protection Plan:

a.) Enhancing Economic Growth -- Cutting Deficits without Higher Taxes:

The President said that bringing spending into line with revenues was "the heart of our deficit reduction plan." In fact, the compromise will cut substantially from spending planned in current law and save:

- \$52 billion in fiscal 1986;
- \$296.8 billion through fiscal 1988;
- more than half a trillion dollars through 1990, when the deficit will be less than 1% of GNP and the budget will be virtually in balance.

The deficit reduction effects of the plan will fulfill the President's original goal of a deficit at 2% of GNP or less in 3 years -- easing substantially the burden of federal borrowing on financial markets. In contrast to this year, when Federal borrowing absorbs 78% of net private savings, by 1988 the Treasury will be taking only 30% of such available credit.

In the same year, if this deficit reduction package is enacted, we can expect by Administration estimates:

- another 7 million American jobs, bringing total employment to nearly 115 million;
- continued moderate inflation;
- economic growth in the range of 4% annually for the 6th straight year.

As the President said in his address, "the task is large, and the stakes are momentous."

The President pointed to the progress made since passage four years ago of his program for economic recovery:

- inflation of 4% or less for three years in a row;
- 29 straight months of growth in the GNP;
- highest employment rate in history at 60.3%;
- record number working, at over 108 million and 8 million more Americans working than 29 months ago;
- interest rates down from record highs.

Giving much of the credit for the economy's turnaround to his 1981 tax rate cuts, the President renewed his commitment to a "veto of any tax increase Congress sends me" and to completely overhaul our tax code, "changing it from a source of confusion and contempt, to a model of fairness and simplicity."

The President received a tax simplification plan from the Treasury Department in December of 1984. Discussions since then between Treasury officials and Members of Congress will yield a final Administration plan next month.

b.) Attacking Spending Across the Board:

The President said "no part of the budget is spared" in the compromise plan. In fact, the plan saves \$97.5 billion from defense over the next 3 years and \$175.8 billion from domestic programs. There's an additional 3 year saving of \$23.6 billion in lowered debt service (interest payments). Overall, the plan:

- terminates or phases out 20 programs;
- substantially reforms 40 others;
- freezes most of the rest;
- reduces the defense spending request to 3% real annual growth -- the bare essential to meet security needs (and about 1/3 the growth rate of the last 5 years).

In calling for elimination of some programs, like taxpayer subsidies for Amtrak, for small business through SBA loans and for big business through Export-Import Bank loans, the President said that "if programs like these can't be cut, we might as well give up all hope of getting Government spending under control."

The President renewed his call for the line-item veto saying, if Congress won't do it, "then I'll make the cuts; I'll take the responsibility -- and the heat." He has asked for this authority consistently, and called in his 1985 State of the Union Address for passage of the Mattingly bill that would legislate a two-year test, in which the President would have temporary authority to reject specific spending items without vetoing an entire appropriations package. Governors in 43 states have line-item veto power and it has been sought for the President periodically since 1876.

c.) Preserving the Safety-Net:

The President pointed out that safety-net programs providing income assistance, food, housing and medical aid were reformed in 1981 and "are now targeted to genuine need." These programs, he added, make up only 8% of the budget.

Programs affecting needy and non-needy alike, such as Medicare, for example, will be reformed in ways that specifically protect the needy. In the case of Medicare, provision is made in the budget compromise for adequate Medicaid funding to assure continued full health care coverage for needy. The elderly poor can be protected from any adverse impact of higher premiums through Medicaid coverage, already automatically provided in 48 states.

Similarly, needy elderly and disabled recipients will be guaranteed real growth in their income through additional SSI benefits. (Supplemental Security Income benefits will be fully indexed for inflation and, in 1986, the nearly 3.7 million elderly or disabled poor receiving them will get an additional \$10 a month, \$15 for needy couples.)

d.) Setting Clear Spending Priorities:

"Our plan recognizes," the President said, "that all spending is not created equal. Some programs are vital to our national security and domestic welfare and must be given first priority. Others are no longer affordable, or were not proper Federal responsibilities to begin with."

The plan brings excessive federal spending growth to an abrupt halt. The rate of spending growth, over 17% just five years ago, shrinks to a negative rate next year. Fiscal 1986 spending will be down 2.2% in real terms under the plan and there would be virtually no growth in 1987-88.

By 1988, total spending will be down from this year's level of 25% of GNP to 21% -- and will be trending lower.

The plan emerged from months of work and program review culminating in agreement between the Administration and Senate leaders on three basic questions:

- should the federal government do it?
- does the current federal approach work?
- can we afford it now?

The President cited several examples of inappropriate federal spending. He condemned these and others on grounds of equity and asserted "it isn't fair and you know it. But that's the law of the land right now, just part of the legacy of trying to do good things for all by treating your earnings like Government property."

Identifying national security as our first priority, the President said the 3% real annual growth which the plan provides is the "rock bottom level we must maintain."

That represents a savings of \$18.5 billion next year and \$97.5 billion by 1988 from the "Rose Garden compromise" agreed to on March 15, 1984. It brings nominal defense spending to a level \$25 billion less than projected in President Carter's last budget which assumed higher inflation. While 3% growth is acceptable, a freeze on defense spending is not; and would likely require cuts in manpower and program delays that would jeopardize some vital systems.

The defense share of total spending will be less in fiscal 1986 under this plan than it was 20 years ago.

III. Conclusion

The President said that the "hour is late" and "the stakes momentous." He asked Americans to make their voices heard and to tell their representatives in the House and Senate that the future health of the economy hangs in the balance.

In the President's words, the healthy economy this plan can ensure "means jobs, opportunities and rising incomes for our younger citizens, and a steady flow of tax payments into the funds that support our retired citizens."